

## TABLE OF CONTENTS

---

	Page
<b>CHAPTER 1: OVERVIEW.....</b>	<b>1-1</b>
<b>SECTION 1: INTRODUCTION TO THE FIELD OFFICE HANDBOOK.....</b>	<b>1-1</b>
1.1 WELCOME TO THE FIELD OFFICE HANDBOOK .....	1-1
1.2 USING THIS HANDBOOK.....	1-1
A. Handbook Symbols .....	1-2
B. Citations and Text Boxes.....	1-2
C. Attachments and Appendices.....	1-3
D. Terminology.....	1-3
<b>SECTION 2: OVERVIEW OF THE DIRECT SINGLE FAMILY HOUSING PROGRAM .....</b>	<b>1-5</b>
1.3 GOALS OF THE DIRECT SINGLE FAMILY HOUSING PROGRAM .....	1-5
1.4 SECTION 502 -- AN OVERVIEW .....	1-5
A. Program Loans.....	1-5
B. Nonprogram Loans .....	1-6
1.5 SECTION 504 -- AN OVERVIEW .....	1-6
A. Section 504 Grants.....	1-6
B. Section 504 Loans.....	1-7
1.6 LOAN SERVICING.....	1-7
1.7 SECTION 306C WATER AND WASTE DISPOSAL (WWD) GRANTS TO INDIVIDUALS.....	1-7
<b>SECTION 3: GENERAL PROGRAM REQUIREMENTS .....</b>	<b>1-9</b>
1.8 CIVIL RIGHTS.....	1-9
A. Nondiscrimination .....	1-10
B. Reasonable Accommodations for Persons with Disabilities .....	1-11
1.9 REVIEW AND APPEALS .....	1-11
A. Informing Program Participants of Their Rights.....	1-11
B. Adverse Decisions That Cannot BeAppealed .....	1-13
C. Informal Review .....	1-14
D. Mediation or Alternative Dispute Resolution (ADR) .....	1-15
E. Appeal.....	1-18

1.10 CONFLICT OF INTEREST .....	1-19
A. Applicant Disclosure .....	1-19
B. Agency Employee Disclosure .....	1-19
C. Disposition of REO Properties.....	1-19
1.11 OTHER FEDERAL REQUIREMENTS .....	1-20
A. Environmental Requirements .....	1-20
B. Construction Standards .....	1-20
C. Administrative Requirements .....	1-20
1.12 EXCEPTION AUTHORITY .....	1-21
ATTACHMENT 1-A: EQUAL CREDIT OPPORTUNITY ACT	
ATTACHMENT 1-B: ATTACHMENT TO LETTER NOTIFYING CUSTOMERS OF AN ADVERSE DECISION THAT IS APPEALABLE	
ATTACHMENT 1-C: ATTACHMENT TO LETTER NOTIFYING CUSTOMERS OF AN ADVERSE DECISION THAT CANNOT BE APPEALED	
ATTACHMENT 1-D: ATTACHMENT TO LETTER NOTIFYING CUSTOMERS OF UNFAVORABLE DECISION REACHED AS A RESULT OF AN INFORMAL REVIEW	
ATTACHMENT 1-E: ATTACHMENT FOR NOTIFYING CUSTOMERS THAT REQUEST MEDIATION IN STATES WITH A USDA- SPONSORED MEDIATION PROGRAM	
ATTACHMENT 1-F: ATTACHMENT FOR REQUESTING MEDIATION OR ALTERNATIVE DISPUTE RESOLUTION (ADR) SERVICES	
ATTACHMENT 1-G: ATTACHMENT FOR NOTIFYING CUSTOMERS THAT REQUEST MEDIATION OR ALTERNATIVE DISPUTE RESOLUTION (ADR) OR SERVICE PROVIDER	
ATTACHMENT 1-H: ATTACHMENT FOR NOTIFYING CUSTOMERS THAT REQUEST MEDIATION OR ALTERNATIVE DISPUTE RESOLUTION (ADR) OF POTENTIAL SERVICE PROVIDERS	
ATTACHMENT 1-I: ATTACHMENT FOR NOTIFYING CUSTOMERS THAT MEDIATION OR ALTERNATIVE DISPUTE RESOLUTION (ADR) DID NOT RESULT IN RESOLUTION OF ISSUES	
<b>CHAPTER 2: OVERVIEW OF SECTION 502 .....</b>	<b>2-1</b>
2.1 INTRODUCTION.....	2-1

---

<b>SECTION 1: TYPES OF LOANS .....</b>	<b>2-1</b>
2.2 OVERVIEW .....	2-1
2.3 INITIAL LOANS .....	2-1
2.4 ASSUMED LOANS .....	2-2
A. New Rates and Terms Assumption .....	2-2
B. Same Rates and Terms Assumption .....	2-2
2.5 SUBSEQUENT LOANS .....	2-3
2.6 NONPROGRAM LOANS .....	2-4
A. Facilitate Sale By an Existing Agency Borrower.....	2-4
B. Facilitate Sale of Real Estate Owned (REO) Property .....	2-4
<b>SECTION 2: THE DEDICATED LOAN ORIGINATION AND SERVICING SYSTEM (DLOS).....</b>	<b>2-5</b>
2.7 DLOS.....	2-5
2.8 UNIFI.....	2-5
2.9 FASTELLER.....	2-6
<b>SECTION 3: OVERVIEW OF LOAN ORIGINATION PROCESS .....</b>	<b>2-7</b>
2.10 APPLICATION PROCESSING .....	2-7
2.11 BORROWER ELIGIBILITY.....	2-7
2.12 PROPERTY REQUIREMENTS .....	2-8
2.13 TAXES, INSURANCE, AND ESCROW .....	2-8
2.14 UNDERWRITING THE LOAN .....	2-8
2.15 LOAN APPROVAL AND CLOSING .....	2-8
<b>CHAPTER 3: APPLICATION PROCESSING.....</b>	<b>3-1</b>
3.1 INTRODUCTION.....	3-1
<b>SECTION 1: PRE-QUALIFICATION .....</b>	<b>3-1</b>
3.2 OVERVIEW .....	3-1
3.3 PROCEDURES FOR PRE-QUALIFICATION .....	3-1
A. Describe the Program.....	3-2
B. Gathering Basic Eligibility and Financial Information .....	3-2
C. Using UniFi to Calculate the Maximum Loan Amount .....	3-2
D. Discussing Pre-Qualification Results.....	3-3

<b>SECTION 2: APPLICATIONS .....</b>	<b>3-5</b>
3.4 DISTRIBUTING APPLICATIONS.....	3-5
A. Individual Applicants.....	3-5
B. Application Packagers .....	3-5
3.5 REVIEW FOR COMPLETENESS.....	3-6
A. Required Documents.....	3-6
B. Incomplete Applications .....	3-6
C. Complete Applications .....	3-7
3.6 OBTAINING ADDITIONAL INFORMATION .....	3-8
3.7 WITHDRAWING AND REJECTING APPLICATIONS .....	3-8
3.8 PRELIMINARY DETERMINATION OF ELIGIBILITY .....	3-8
<b>SECTION 3: SELECTION FOR PROCESSING.....</b>	<b>3-9</b>
3.9 OVERVIEW .....	3-9
3.10 DETERMINING WHETHER FUNDS ARE AVAILABLE.....	3-9
A. Regular Funding.....	3-9
B. Special Funding.....	3-10
3.11 IF FUNDING IS NOT AVAILABLE .....	3-10
3.12 SELECTING APPLICATIONS FOR PROCESSING.....	3-11
A. Selection Procedures .....	3-11
B. Processing Priorities .....	3-11
C. Veteran's Preference .....	3-12
D. Notifying Applicants Who Are Selected for Processing.....	3-13
3.13 PURGING THE WAITING LIST .....	3-14
3.14 VERIFICATIONS .....	3-14
A. Types of Verifications .....	3-14
B. Evaluating Verified Information.....	3-15
ATTACHMENT 3-A: PACKAGING APPLICATIONS	
ATTACHMENT 3-B: FOLLOWUP QUESTIONS FOR FORM RD 410-4, UNIFORM RESIDENTIAL LOAN APPLICATION	
ATTACHMENT 3-C: CASE STUDY - PROCESSING PRIORITIES	
ATTACHMENT 3-D: APPLICANT INFORMATION SHEET - SINGLE FAMILY HOUSING	

<b>CHAPTER 4: BORROWER ELIGIBILITY.....</b>	<b>4-1</b>
4.1 OVERVIEW .....	4-1
<b>SECTION 1: EVALUATING BORROWER INCOME.....</b>	<b>4-1</b>
4.2 OVERVIEW .....	4-1
A. Key Concepts for Income Determinations.....	4-2
B. Using UniFi and the Income Worksheet to Compute Income .....	4-3
4.3 SOURCES OF INCOME.....	4-3
A. Income That is Never Counted .....	4-3
B. Verifying Sources and Amounts .....	4-4
4.4 CALCULATING ANNUAL AND ADJUSTED INCOME .....	4-5
A. Calculating Annual Income.....	4-6
B. Calculating Deductions from Annual Income .....	4-6
C. Dependent Deduction .....	4-6
D. Child Care Expenses .....	4-6
E. Elderly Household Deduction .....	4-7
F. Care of Household Members.....	4-8
G. Deduction for Medical Expenses (for Elderly Households Only).....	4-8
4.5 CALCULATING REPAYMENT INCOME .....	4-9
<b>SECTION 2: EVALUATING BORROWER ASSETS .....</b>	<b>4-11</b>
4.6 OVERVIEW OF POLICIES RELATED TO ASSETS .....	4-11
A. Reporting Assets .....	4-11
B. Calculating Market and Cash Value .....	4-12
C. Retirement Assets.....	4-13
4.7 LIMITATIONS ON ASSETS.....	4-13
A. Limitation on Nonretirement Assets .....	4-13
B. Limitation on Retirement Assets .....	4-13
C. Exception to the Asset Limitations .....	4-13
4.8 CALCULATING INCOME FROM ASSETS FOR ANNUAL INCOME .....	4-14
A. Two Methods for Calculating Income from Assets .....	4-14
B. Assets Disposed of for Less than Fair Market Value .....	4-15
4.9 CALCULATING INCOME FROM ASSETS FOR REPAYMENT INCOME.....	4-15

<b>SECTION 3: CREDIT HISTORY .....</b>	<b>4-17</b>
4.10 OVERVIEW .....	4-17
4.11 CREDIT REQUIREMENTS .....	4-17
4.12 CONDUCTING PRELIMINARY CREDIT CHECKS .....	4-19
A. Credit Alert Interactive Voice Response System.....	4-20
B. Infile Credit Report .....	4-20
4.13 CONDUCTING FULL REVIEW OF CREDIT HISTORY.....	4-21
A. Credit Report.....	4-22
B. Other Credit Verifications.....	4-22
4.14 CREDIT HISTORY WORKSHEET.....	4-24
4.15 MAKING EXCEPTIONS.....	4-24
<b>SECTION 4: OTHER ELIGIBILITY REQUIREMENTS .....</b>	<b>4-27</b>
4.16 OWNING A DWELLING .....	4-27
4.17 ABILITY TO OBTAIN OTHER CREDIT .....	4-27
4.18 OCCUPYING THE PROPERTY .....	4-27
4.19 LEGAL CAPACITY .....	4-27
4.20 SUSPENSION OR DEBARMENT .....	4-28
4.21 CITIZENSHIP STATUS .....	4-28
4.22 TRUTHFUL APPLICATION.....	4-28
ATTACHMENT 4-A: SAMPLE WORKSHEET FOR COMPUTING INCOME	
ATTACHMENT 4-B: CASE STUDY	
ATTACHMENT 4-C: ANNUAL INCOME SOURCES	
ATTACHMENT 4-D: REPAYMENT INCOME SOURCES	
ATTACHMENT 4-E: SUMMARY OF VERIFICATION REQUIREMENTS FOR FREQUENTLY-REPORTED INCOME SOURCES	
<b>CHAPTER 5: PROPERTY REQUIREMENTS.....</b>	<b>5-1</b>
5.1 INTRODUCTION.....	5-1
A. Overview of Property Requirements .....	5-1
B. Key Processing Steps Related to Property Requirements .....	5-1
<b>SECTION 1: SITE REQUIREMENTS.....</b>	<b>5-5</b>
5.2 OVERVIEW .....	5-5

5.3 RURAL AREA DESIGNATION.....	5-5
A. Rural Area Definition .....	5-5
B. Special Considerations.....	5-6
C. Reviewing Rural Area Designations.....	5-7
5.4 MODEST SITES.....	5-9
5.5 ADEQUATE WATER AND WASTEWATER SYSTEMS .....	5-9
<b>SECTION 2: DWELLING REQUIREMENTS.....</b>	<b>5-11</b>
5.6 MODEST HOUSING.....	5-11
A. Section 203(b) Limits.....	5-11
B. Prohibited Features.....	5-13
5.7 DECENT, SAFE AND SANITARY DWELLINGS .....	5-13
A. Existing Dwellings.....	5-14
B. New Construction .....	5-14
C. Survey Requirements.....	5-14
D. Flood-Related Requirements .....	5-15
<b>SECTION 3: ENVIRONMENTAL REQUIREMENTS.....</b>	<b>5-17</b>
5.8 PROTECTION OF ENVIRONMENTAL RESOURCES.....	5-17
A. Types of Environmental Reviews.....	5-17
B. Flood Hazard Determination.....	5-19
C. Responsibility for Environmental Reviews .....	5-19
5.9 MANAGEMENT OF HAZARDOUS SUBSTANCES .....	5-20
<b>SECTION 4: SECURITY REQUIREMENTS.....</b>	<b>5-21</b>
5.10 ACCEPTABLE MORTGAGE.....	5-21
5.11 OWNERSHIP REQUIREMENTS .....	5-21
A. Responsibilities.....	5-21
B. Acceptable Forms of Ownership .....	5-21
5.12 EXCEPTIONS TO THE AGENCY'S SECURITY REQUIREMENTS.....	5-25
A. Unsecured (Note Only) Loans .....	5-25
B. Best Mortgage Obtainable .....	5-25
<b>SECTION 5: APPRAISALS .....</b>	<b>5-27</b>
5.13 OVERVIEW .....	5-27

5.14 TYPES OF VALUE .....	5-27
5.15 APPRAISAL METHODOLOGY .....	5-27
5.16 ORDERING APPRAISALS .....	5-28
A. When Appraisals Are Needed.....	5-28
B. Required Information .....	5-29
C. Abbreviated or Revised Appraisals .....	5-29
D. Timelines .....	5-30
5.17 APPRAISER RESPONSIBILITIES .....	5-30
5.18 REVIEWING APPRAISALS .....	5-30
A. Administrative Review .....	5-31
B. Technical Review .....	5-31
C. Field Review .....	5-31
5.19 PAYING FOR APPRAISALS .....	5-32
5.20 APPRAISALS IN REMOTE RURAL AREAS OR TRIBAL LANDS .....	5-32
<b>SECTION 6: MANAGING CONSTRUCTION .....</b>	<b>5-35</b>
5.21 DESIGN.....	5-35
A. Disseminating the Standards.....	5-35
B. Review and Approve the Drawings and Specifications .....	5-35
5.22 PREPARING FOR CONSTRUCTION.....	5-35
A. Selecting the Contractor.....	5-35
B. Pre-Construction Conference.....	5-36
C. Construction Contract .....	5-37
D. Department of Labor Notification.....	5-37
5.23 CONSTRUCTION PERIOD .....	5-37
A. Qualified Inspector.....	5-38
B. Periodic Inspections .....	5-38
C. Partial Payments .....	5-39
D. Changes During Construction.....	5-39
5.24 CONSTRUCTION CLOSEOUT .....	5-40
5.25 SPECIAL SITUATIONS.....	5-42
A. Funds Remaining After Completion.....	5-42
B. Construction Work that Cannot be Completed.....	5-42
C. Deceased Borrowers .....	5-42
D. Compensation for Construction Defects .....	5-42

ATTACHMENT 5-A: CHECKLIST FOR INITIAL ASSESSMENT OF  
EXISTING HOUSING

ATTACHMENT 5-B: SINGLE FAMILY HOUSING SITE CHECKLIST

ATTACHMENT 5-C: AMENDMENTS TO MORTGAGES WITH LEASEHOLD  
INTEREST

<b>CHAPTER 6: ESCROW, TAXES, AND INSURANCE .....</b>	<b>6-1</b>
6.1 INTRODUCTION.....	6-1
<b>SECTION 1: ESCROW .....</b>	<b>6-1</b>
6.2 OVERVIEW .....	6-1
6.3 ESCROW DEPOSITS .....	6-2
A. Monthly Payment .....	6-2
B. Borrower's Initial Deposit to the Escrow Account.....	6-3
C. Seller's Tax Liability.....	6-3
6.4 CALCULATING ESCROW AMOUNTS .....	6-3
6.5 INFORMING THE APPLICANT.....	6-5
6.6 CLOSING .....	6-5
6.7 CONSTRUCTION LOANS .....	6-5
6.8 SERVICING ESCROW ACCOUNTS.....	6-6
<b>SECTION 2: TAXES .....</b>	<b>6-7</b>
6.9 ESTIMATING THE AMOUNT OF TAXES .....	6-7
6.10 TAX SERVICE FEE .....	6-7
6.11 TAX INFORMATION SHEET .....	6-7
<b>SECTION 3: INSURANCE .....</b>	<b>6-9</b>
6.12 OVERVIEW .....	6-9
6.13 TYPES OF INSURANCE .....	6-9
A. Hazard Insurance .....	6-9
B. Flood Insurance.....	6-9
C. Builder's Risk Policies.....	6-10
6.14 EVIDENCE OF INSURANCE.....	6-10
6.15 AUTHORIZED INSURANCE PROVIDERS .....	6-10
6.16 REVIEWING INSURANCE POLICIES .....	6-11

ATTACHMENT 6-A:	INSURANCE POLICY REQUIREMENTS
ATTACHMENT 6-B:	CALCULATION OF ESTIMATED TAXES DUE THROUGH CONSTRUCTION PERIOD AND INITIAL ESCROW DEPOSIT
ATTACHMENT 6-C	TAX SERVICE FEE SCHEDULE

<b>CHAPTER 7: UNDERWRITING THE LOAN.....</b>	<b>7-1</b>
<b>SECTION 1: OVERVIEW OF THE UNDERWRITING PROCESS.....</b>	<b>7-1</b>
7.1 INTRODUCTION.....	7-1
7.2 WHAT IS UNDERWRITING?.....	7-1
7.3 USING UNIFI TO FACILITATE UNDERWRITING.....	7-3
<b>SECTION 2: LOAN TERMS AND REQUIREMENTS .....</b>	<b>7-5</b>
7.4 ELIGIBLE LOAN PURPOSES AND USES .....	7-5
A. Site-Related Costs.....	7-5
B. Dwelling-Related Costs .....	7-5
C. Fees and Related Costs.....	7-6
D. Loan Restrictions .....	7-7
7.5 REFINANCING.....	7-7
A. Refinancing Agency Debt .....	7-7
B. Refinancing Non-Agency Debt .....	7-7
7.6 SECTION 203(b) MAXIMUM LOAN LIMITATION .....	7-9
A. Area-Wide Exceptions to the Loan Limits .....	7-9
B. Individual Exceptions to the Loan Limits.....	7-10
7.7 LOAN-TO-VALUE (LTV) RATIO.....	7-11
A. Loans for Existing Dwellings (100% LTV).....	7-11
B. Loans for New Dwellings (90-100% LTV).....	7-11
C. Subsequent Loans for Necessary Repairs.....	7-12
D. Subsequent Loans for Closing Costs Only .....	7-13
E. Refinanced Loan for Existing Agency Borrower .....	7-13
7.8 REPAYMENT PERIODS .....	7-13
A. Exceptions to the Standard 33-Year Maximum Term .....	7-13
B. Effect of Repayment Period on Payment Subsidy.....	7-14
7.9 INTEREST RATES .....	7-14
A. Note Rates .....	7-14
B. Equivalent Interest Rates .....	7-14

7.10 USE OF ASSETS .....	7-15
A. Asset Limits .....	7-15
B. Exception to the Asset Limits .....	7-15
C. Eligible Uses of Assets .....	7-15
D. Ineligible Uses of Assets.....	7-16
<b>SECTION 3: PAYMENT SUBSIDIES.....</b>	<b>7-17</b>
7.11 AN OVERVIEW OF PAYMENT SUBSIDIES .....	7-17
A. Two Types of Subsidy.....	7-17
B. Applicant Eligibility .....	7-17
C. Loan Requirements.....	7-18
D. Annual and Interim Reviews.....	7-19
E. Recapture Requirement .....	7-19
7.12 CALCULATING PAYMENT ASSISTANCE .....	7-20
A. Required Borrower Payment .....	7-20
B. Establishing the Floor Payment.....	7-20
C. Calculating the Payment at the EIR.....	7-22
D. Exceptions to the EIR .....	7-22
7.13 CALCULATING INTEREST CREDIT.....	7-23
<b>SECTION 4: PROCESSING THE CERTIFICATE OF ELIGIBILITY.....</b>	<b>7-25</b>
7.14 DETERMINING REPAYMENT ABILITY .....	7-25
A. The PITI Ratio.....	7-25
B. The TD Ratio.....	7-25
C. Determining the Maximum Loan Amount.....	7-26
D. Using Market Data to Interpret UniFi Results.....	7-27
7.15 IDENTIFYING CANDIDATES FOR PRIVATE FINANCING .....	7-27
7.16 COUNSELING APPLICANTS WITH LOW MAXIMUM LOAN AMOUNTS .	7-28
A. Using Compensating Factors .....	7-28
B. Adding Additional Parties or Cosigners to the Note .....	7-30
7.17 ISSUING THE CERTIFICATE OF ELIGIBILITY .....	7-31

<b>SECTION 5: UNDERWRITING A LOAN FOR A SPECIFIC PROPERTY .....</b>	<b>7-33</b>
7.18 APPROVING A SPECIFIC PROPERTY .....	7-33
A. Applicant Submission .....	7-33
B. Evaluation of the Property .....	7-33
7.19 FUNDS AVAILABLE FOR CLOSING.....	7-33
7.20 CALCULATING THE APPROVABLE LOAN AMOUNT .....	7-34
A. Calculating the Approvable Loan at Standard Terms .....	7-34
B. Working with Applicants Who Do Not Qualify Using Standard Terms .....	7-34
7.21 APPROVING OR DENYING CREDIT .....	7-35
A. Preparing the Loan Approval Package.....	7-35
B. Notifying Applicants Who Are Denied Credit .....	7-35
ATTACHMENT 7-A: DOCUMENTATION REQUIRED PRIOR TO APPROVING A LOAN	
ATTACHMENT 7-B: STATE DIRECTOR EXCEPTION(S) TO HUD 203(B) MAXIMUM MORTGAGE LIMITS (MML)	
<b>CHAPTER 8: LOAN APPROVAL AND CLOSING .....</b>	<b>8-1</b>
8.1 INTRODUCTION.....	8-1
<b>SECTION 1: LOAN APPROVAL AND OBLIGATION .....</b>	<b>8-1</b>
8.2 THE LENDING DECISION .....	8-1
A. Rejection.....	8-1
B. Approval .....	8-2
8.3 OBLIGATING FUNDS.....	8-2
A. Initial Obligation .....	8-2
B. Changing the Loan Amount.....	8-2
C. Canceling a Loan.....	8-3
<b>SECTION 2: PREPARING FOR CLOSING.....</b>	<b>8-5</b>
8.4 TITLE INSURANCE AND CLOSING AGENTS .....	8-5
A. Title Insurance .....	8-5
B. Closing Agents .....	8-5
C. Approvals.....	8-5
D. Procedures .....	8-6

---

8.5 RESPONSIBILITIES OF THE CLOSING AGENT .....	8-6
8.6 RESPONSIBILITIES OF THE LOAN ORIGINATOR .....	8-7
A. Prepare the Applicant .....	8-8
B. Review Title Insurance Binder (or Preliminary Title Opinion) .....	8-9
C. Prepare Loan Documents .....	8-10
D. Reverifying Income .....	8-11
<b>SECTION 3: CLOSING .....</b>	<b>8-13</b>
8.7 OBTAINING FUNDS FOR CLOSING .....	8-13
8.8 ESTABLISHING THE DISBURSEMENT SCHEDULE .....	8-13
A. Permanent Loans.....	8-13
B. Construction Loans .....	8-13
8.9 ESTABLISHING A REPAYMENT SCHEDULE .....	8-14
8.10 THE CLOSING.....	8-14
8.11 POST CLOSING ACTIVITIES.....	8-15
A. Activate the Loan.....	8-15
B. Obtain Closing Documents .....	8-15
C. Review Closing Documents .....	8-15
D. Loan Docket .....	8-15
E. Record Mortgage or Deed of Trust.....	8-16
F. Secure Title Insurance Policy .....	8-16
<b>SECTION 4: CONSTRUCTION LOANS .....</b>	<b>8-17</b>
8.12 ADMINISTER CONSTRUCTION FUNDS .....	8-17
8.13 CONVERT CONSTRUCTION LOANS .....	8-17
A. Modify Note and FASTeller .....	8-18
B. Update Payment Subsidy .....	8-18
C. Generate a New Truth in Lending Disclosure Statement .....	8-18
ATTACHMENT 8-A: DOCUMENTS TO BE SIGNED OR SUBMITTED AT LOAN CLOSING	
<b>CHAPTER 9: SPECIAL SITUATIONS .....</b>	<b>9-1</b>
9.1 INTRODUCTION.....	9-1
<b>SECTION 1: CONDITIONAL COMMITMENTS .....</b>	<b>9-1</b>
9.2 OVERVIEW OF CONDITIONAL COMMITMENTS .....	9-1
9.3 APPLICATION AND FEE.....	9-1

9.4 EVALUATING THE CONDITIONAL COMMITMENT APPLICATION .....	9-2
9.5 PRELIMINARY APPROVAL.....	9-3
A. Rejecting the Application for Conditional Commitment .....	9-3
B. Ordering an Appraisal.....	9-4
9.6 FINAL APPROVAL.....	9-4
A. Proposed Price Too High .....	9-4
B. Proposed Price Acceptable .....	9-4
9.7 DURATION OF COMMITMENT .....	9-5
9.8 CHANGES IN PLANS, SPECIFICATIONS, OR COMMITMENT PRICE .....	9-5
9.9 PROPERTY INSPECTIONS .....	9-6
9.10 BUILDER'S WARRANTY .....	9-6
9.11 CONDITIONAL COMMITMENTS INVOLVING PACKAGING OF APPLICATIONS.....	9-6
<b>SECTION 2: SPECIAL FORMS OF OWNERSHIP .....</b>	<b>9-7</b>
9.12 OVERVIEW .....	9-7
9.13 LOANS FOR CONDOMINIUM UNITS .....	9-7
A. Financing Approval .....	9-7
B. Condominium Status .....	9-7
C. Protection of Agency Rights and Lien Position .....	9-8
D. Closing Documents .....	9-9
9.14 LOANS FOR UNITS IN A COMMUNITY LAND TRUST.....	9-9
A. Definition .....	9-9
B. Preservation of Agency Rights and Lien Position .....	9-10
C. Restrictions on Resale Price.....	9-11
D. Right of First Refusal .....	9-11
E. Payment Subsidy Recapture.....	9-12
F. Appraisals .....	9-12
9.15 PLANNED UNIT DEVELOPMENTS .....	9-12
<b>SECTION 3: MANUFACTURED HOMES .....</b>	<b>9-13</b>
9.16 AUTHORIZED LOAN PURPOSES.....	9-13
A. Definition .....	9-13
B. Authorized Loan Purposes .....	9-13
C. Loan Restrictions .....	9-13

---

9.17 DEALER-CONTRACTOR REQUIREMENTS .....	9-14
9.18 PROCESSING PROCEDURES .....	9-16
A. Submission Requirements.....	9-16
B. Appraisal Techniques .....	9-16
C. Loan Rates and Terms.....	9-17
9.19 CONSTRUCTION AND SITE REQUIREMENTS .....	9-17
9.20 LOAN CLOSING.....	9-18
A. Contract Requirements.....	9-18
B. Lien Release Requirements .....	9-19
C. Warranty Requirement.....	9-19
D. Real Estate Tax Requirement .....	9-19
<b>CHAPTER 10: LEVERAGED LOANS .....</b>	<b>10-1</b>
<b>SECTION 1: UNDERSTANDING LEVERAGED LOANS.....</b>	<b>10-1</b>
10.1 OVERVIEW .....	10-1
A. Advantages of Leveraged Loans.....	10-1
B. Two Separate Financial Agreements .....	10-2
10.2 SOURCE OF LEVERAGED FUNDS .....	10-2
A. Market Rate Financing .....	10-2
B. Other Subsidized Financing .....	10-2
10.3 KEY DIFFERENCES IN POLICIES AND PROCEDURES .....	10-3
A. Eligible Loans and Grants.....	10-3
B. Lien Position .....	10-4
C. Payment Assistance Calculation.....	10-4
D. Availability of Mortgage Credit Certificates (MCC).....	10-4
E. Origination .....	10-4
F. Servicing.....	10-4
10.4 DEVELOPING STATE-BY-STATE APPROACHES TO LEVERAGING .....	10-5
A. Lender Outreach .....	10-5
B. Borrower Education .....	10-6
C. Streamlined Processing Procedures.....	10-6

**SECTION 2: ORIGINATING LEVERAGED LOANS.....** **10-7**

10.5 TAKING APPLICATIONS .....	10-7
10.6 REFERRING APPLICANTS TO PARTICIPATING LENDERS .....	10-7
10.7 DETERMINING BORROWER ELIGIBILITY .....	10-8
10.8 ISSUING THE CERTIFICATE OF ELIGIBILITY .....	10-8
10.9 UNDERWRITING LEVERAGED LOANS .....	10-8
A. Lender vs. Agency Underwriting .....	10-8
B. Property Requirements and Appraisal .....	10-9
C. Loan-to-Value Ratio .....	10-9
D. Loan Terms and Fees .....	10-9
E. Determining Loan Amount .....	10-10
F. Agreements with the Participating Lender Regarding Construction .....	10-10
10.10 LOAN CLOSING .....	10-11
A. Required Documentation.....	10-11
B. Recording the Lien .....	10-11
<b>ATTACHMENT 10-A: EXAMPLE: AGENCY FUNDS LEVERAGED WITH PRIVATE MARKET-RATE FINANCING</b>	
<b>ATTACHMENT 10-B: SAMPLE TOPICS TO BE ADDRESSED IN A MEMORANDUM OF UNDERSTANDING</b>	
<b>ATTACHMENT 10-C: SAMPLE LEVERAGING INFORMATION FOR LENDERS</b>	
<b>CHAPTER 11: NONPROGRAM LOANS .....</b>	<b>11-1</b>
11.1 INTRODUCTION .....	11-1
A. Nonprogram Assumptions .....	11-1
B. Nonprogram Loans to Purchase REO Property.....	11-1
11.2 PRE-QUALIFICATION .....	11-2
11.3 APPLICATION PROCESSING .....	11-2
11.4 ELIGIBILITY .....	11-2
11.5 PROPERTY REQUIREMENTS .....	11-2
11.6 UNDERWRITING THE LOAN .....	11-3
A. Down Payment Requirement .....	11-3
B. Amount to be Financed.....	11-3
C. Interest Rate.....	11-3
D. Loan Repayment Period .....	11-3
E. Repayment Ability .....	11-4

11.7 LOAN APPROVAL AND CLOSING .....	11-4
11.8 SERVICING NONPROGRAM LOANS.....	11-4

ATTACHMENT 11-A: SUMMARY OF DIFFERENCES BETWEEN  
PROGRAM LOANS AND NONPROGRAM LOANS

**CHAPTER 12: SECTION 504 LOANS AND GRANTS.....12-1**

12.1 INTRODUCTION .....	12-1
12.2 ELIGIBLE PURPOSES FOR 504 FUNDS .....	12-1
A. Restrictions on the Use of 504 Funds .....	12-2
B. Repairs to Mobile or Manufactured Homes .....	12-2
12.3 APPLICATIONS.....	12-3
12.4 APPLICANT ELIGIBILITY .....	12-3
A. Income.....	12-3
B. Credit Requirements.....	12-3
C. Asset Requirements .....	12-4
D. Repayment Ability.....	12-4
E. Age for Section 504 Grants .....	12-4
F. Ownership of Property .....	12-4
12.5 PROPERTY ELIGIBILITY.....	12-5
A. Property Requirements.....	12-5
B. Determining Property Value .....	12-5
C. Construction Standards .....	12-6
D. Environmental Requirements.....	12-6
12.6 INTEREST RATE AND LOAN TERM .....	12-6
12.7 MAXIMUM LOAN AND GRANT AMOUNTS .....	12-7
A. Maximum Loan Amount .....	12-7
B. Grant Limits .....	12-7
12.8 LOAN APPROVAL AND CLOSING .....	12-8
A. Loan Approval .....	12-8
B. Security Requirements.....	12-8
C. Loan Closing .....	12-8

12.9 GRANT APPROVAL AND DISBURSEMENT .....	12-8
A. Grant Approval .....	12-8
B. Grant Repayment Agreements .....	12-8
C. Documentation of Grants .....	12-9
12.10 ESCROW, TAXES, AND INSURANCE.....	12-9
ATTACHMENT 12-A: SUMMARY OF DIFFERENCES BETWEEN SECTION 504 LOANS AND GRANTS	
ATTACHMENT 12-B: DIFFERENCES BETWEEN SECTION 502 AND SECTION 504 LOANS	
<b>CHAPTER 13: SERVICING AND LIQUIDATION FUNCTIONS .....</b>	<b>13-1</b>
13.1 OVERVIEW .....	13-1
13.2 TRANSITION TO CSC .....	13-2
<b>SECTION 1: WORKING WITH CSC.....</b>	<b>13-3</b>
13.3 REGULAR SERVICING .....	13-3
A. Newly-Activated Borrower Account .....	13-3
B. Payments.....	13-3
C. Approval Actions .....	13-3
D. Appraisals .....	13-4
E. Insurance Claims .....	13-4
F. Reamortzations and Other Documents Requiring Borrower Signature.....	13-5
G. Payoffs.....	13-5
H. Final Payments and Satisfactions .....	13-6
13.4 SPECIAL SERVICING ACTIONS .....	13-6
A. Borrower Counseling .....	13-6
B. Protective Advances.....	13-6
C. Refinancing .....	13-7
D. Subsequent Loans .....	13-7
E. Bankruptcies .....	13-7
F. Missing Borrowers.....	13-7
G. Payment Subsidy Renewals .....	13-8
H. Preacceleration Personal Contact.....	13-9
13.5 VOLUNTARY SALE.....	13-10
13.6 DEBT SETTLEMENT .....	13-13
13.7 ADDITIONAL INPUT.....	13-13

---

<b>SECTION 2: BORROWER ACTIONS REQUIRING APPROVAL .....</b>	<b>13-15</b>
13.8 OVERVIEW .....	13-15
13.9 GENERAL GUIDELINES .....	13-15
A. Reviewing Requests .....	13-15
B. Obtaining an Appraisal and an Environmental Review.....	13-15
C. Evaluating and Approving the Request .....	13-16
D. Using Proceeds .....	13-16
13.10 SUBORDINATION .....	13-17
A. Criteria for Subordination.....	13-17
B. Amount of Subordination .....	13-18
13.11 MINERAL LEASES.....	13-18
13.12 PARTIAL RELEASE OF SECURITY .....	13-19
13.13 LEASE OF SECURITY PROPERTY .....	13-21
13.14 ASSUMPTION OF INDEBTEDNESS .....	13-21
A. New Rates and Terms Assumptions.....	13-21
B. Same Rates and Terms Assumptions.....	13-21
C. Agency Approval .....	13-22
D. Procedural Requirements.....	13-23
E. Releasing a Departing Borrower from Liability .....	13-23
13.15 PROTECTIVE ADVANCES.....	13-24
A. Advances for Property Repairs .....	13-24
B. Advances for Other Purposes .....	13-25
<b>SECTION 3: LIQUIDATION .....</b>	<b>13-27</b>
13.16 OVERVIEW.....	13-27
13.17 NET RECOVERY VALUE.....	13-27
A. Establishing Market Value.....	13-27
B. Environmental Considerations .....	13-27
C. Ordering an Appraisal.....	13-28
D. Holding Period.....	13-29
E. Deductions from Market Value.....	13-29
F. Additions to Market Value.....	13-30

13.18 BASIC SECURITY LOSS.....	13-31
13.19 DEED IN LIEU OF FORECLOSURE.....	13-31
13.20 FORECLOSURE.....	13-32

A. Making the Acceleration Decision .....	13-32
B. Acceleration .....	13-33
C. Review of the Acceleration Decision .....	13-34
D. Initiating Legal Proceedings .....	13-35
E. The Foreclosure Sale .....	13-35

**ATTACHMENT 13-A: PAYOFF RUSH REQUEST**

**CHAPTER 14: REFINANCING WITH PRIVATE CREDIT .....14-1**

14.1 OVERVIEW .....	14-1
14.2 SUBSEQUENT CREDIT .....	14-1
14.3 UNDERSTANDING LENDER POLICIES .....	14-2
14.4 SUBORDINATION .....	14-2
14.5 SELECTING BORROWERS FOR REVIEW .....	14-3
14.6 PROCESSING REFINANCING REVIEWS .....	14-3

A. Requesting Borrower Information .....	14-3
B. Acceleration for Uncooperative Borrowers.....	14-4

14.7 DETERMINING WHETHER REFINANCING IS REQUIRED.....	14-5
---	------

A. Reviewing Borrower Information .....	14-5
B. Taking Action on Borrower Information.....	14-5

14.8 BORROWER RESPONSES .....	14-6
-------------------------------	------

A. Contesting the Agency Decision .....	14-6
B. Borrowers Who Find Private Financing .....	14-6
C. Borrowers Who Do Not Find Private Financing.....	14-7

**ATTACHMENT 14-A: SURVEY OF LENDER CREDIT CRITERIA**

**CHAPTER 15: MANAGING CUSTODIAL AND REO PROPERTY .....15-1**

15.1 OVERVIEW .....	15-1
---------------------	------

**SECTION 1: PROPERTY MANAGEMENT METHODS AND ACTIVITIES .....15-1**

15.2 MANAGEMENT METHODS AND CONTRACTS .....	15-1
---	------

A. Selecting a Management Contractor .....	15-1
B. Management Contract Requirements .....	15-2

15.3 TAKING POSSESSION.....	15-2
A. Taking Custodial Possession.....	15-2
B. Acquisition of an REO Property .....	15-3
15.4 INSPECTING AND SECURING CUSTODIAL AND REO PROPERTY.....	15-4
A. Inspecting and Classifying the Property .....	15-4
B. Securing Custodial and REO Property .....	15-4
15.5 DISPOSITION OF NONSECURITY PROPERTY .....	15-5
A. Custodial Property .....	15-5
B. REO Property .....	15-6
15.6 TAXES AND INSURANCE .....	15-6
A. Taxes .....	15-6
B. Insurance.....	15-7
15.7 ENVIRONMENTAL REQUIREMENTS .....	15-7
A. Repair and Maintenance Activities.....	15-8
B. Lease or Management Contract .....	15-10
15.8 MANAGEMENT OF HAZARDOUS SUBSTANCES .....	15-12
15.9 PHYSICAL MAINTENANCE AND REPAIR .....	15-13
A. Vandalism and Theft .....	15-13
B. Off-Site Repairs or Improvements .....	15-13
C. Lead-Based Paint Disclosure .....	15-14
<b>SECTION 2: SPECIAL USES.....</b>	<b>15-15</b>
15.10 LEASING CUSTODIALS AND REO.....	15-15
A. Security Deposits .....	15-15
B. Costs and Income .....	15-15
15.11 SPECIAL USES OF REO .....	15-16
A. Transitional Housing for the Homeless .....	15-16
B. Use by Federal Emergency Management Agency (FEMA).....	15-16
C. Mineral Leases .....	15-16

- ATTACHMENT 15-A: UNDERGROUND STORAGE TANKS THAT MUST BE REPORTED
- ATTACHMENT 15-B: MEMORANDUM OF UNDERSTANDING BETWEEN UNITED STATES DEPARTMENT OF AGRICULTURE (USDA) AND DEPARTMENT OF HEALTH AND HUMAN SERVICES (HSS)
- ATTACHMENT 15-C: FACT SHEET -- THE FEDERAL INTERAGENCY TASK FORCE ON FOOD AND SHELTER FOR THE HOMELESS
- ATTACHMENT 15-D: LEASE OF SINGLE FAMILY DWELLING
- ATTACHMENT 15-E: MEMORANDUM OF UNDERSTANDING BETWEEN THE FEDERAL EMERGENCY MANAGEMENT AGENCY AND THE FARMERS HOME ADMINISTRATION
- ATTACHMENT 15-F: FEDERAL EMERGENCY MANAGEMENT AGENCY AND THE RURAL HOUSING SERVICE FEMA-RHS LETTER OF ASSIGNMENT

<b>CHAPTER 16: DISPOSING OF REAL ESTATE OWNED PROPERTY .....</b>	<b>16-1</b>
<b>SECTION 1: PRICING AND LISTING PROPERTIES.....</b>	<b>16-1</b>
16.1 OVERVIEW .....	16-1
A. Sale Methods and Pricing .....	16-1
B. Financing.....	16-1
C. Warranty .....	16-2
D. FASTeller Processing for REO Sales.....	16-2
16.2 CONTRACTING FOR SALES SERVICES .....	16-2
A. Selecting Exclusive Brokers .....	16-2
B. Announcing Open Listing .....	16-2
C. Commissions .....	16-3
D. Broker Purchases of REO Properties.....	16-3
16.3 PRICING AND SALES SCHEDULES .....	16-3
A. Appraisals .....	16-3
B. Sales Schedules and Administrative Price Reductions .....	16-4

<b>SECTION 2: MARKETING .....</b>	<b>16-7</b>
16.4 MARKETING AND ADVERTISEMENT .....	16-7
A. Fair Housing and Affirmative Fair Housing Marketing Plan .....	16-7
B. Truth in Lending Requirements.....	16-7
C. Advertising and Marketing Methods.....	16-7
D. Review of Marketing for Unsold Properties.....	16-8
16.5 SPECIAL MARKETING TECHNIQUES .....	16-8
A. Buyer Incentives.....	16-8
B. Broker Incentives .....	16-9
C. Acquisition of Land, Easements, or Rights-of-Way to Effect Sale.....	16-9
16.6 REO PROPERTY NOT MEETING DSS STANDARDS .....	16-9
A. Notice of Occupancy Restriction .....	16-10
B. Quitclaim Deed Restrictive Covenant .....	16-10
C. Release of Restrictive Covenant.....	16-11
<b>SECTION 3: SALE METHODS .....</b>	<b>16-13</b>
16.7 REGULAR SALE METHOD .....	16-13
A. Listing the Property.....	16-13
B. Submission Requirements .....	16-13
C. Receiving and Considering Offers.....	16-13
D. Earnest Money .....	16-14
E. Cancellation of Sales Contracts.....	16-15
16.8 DISPOSITION BY SEALED BID OR AUCTION.....	16-15
A. Establishing the Minimum Acceptable Offer .....	16-15
B. Publicizing the Sale .....	16-15
C. Sealed Bid Procedures.....	16-16
D. Auction Procedures.....	16-18
16.9 NEGOTIATED SALE.....	16-19
16.10 DISPOSAL OF PROPERTY FOR SPECIAL PURPOSES .....	16-19
A. Multifamily Housing.....	16-19
B. Transitional Housing for the Homeless .....	16-19
C. Affordable Housing .....	16-20
16.11 DISPOSAL AS CHATTEL OR SALVAGE .....	16-20

<b>SECTION 4: ENVIRONMENTAL REQUIREMENTS.....</b>	<b>16-21</b>
16.12 OVERVIEW.....	16-21
16.13 PROPERTY LOCATED WITHIN A SPECIAL FLOOD OR MUDSLIDE HAZARD AREA OR CONTAINS WETLANDS .....	16-21
16.14 COASTAL BARRIER RESOURCES SYSTEMS .....	16-22
16.15 NATIONAL REGISTER OF HISTORIC PLACES .....	16-22
16.16 PROTECTIVE COVENANTS AND EASEMENTS .....	16-23
16.17 REPORTABLE UNDERGROUND STORAGE TANKS .....	16-24
16.18 MANAGEMENT OF HAZARDOUS SUBSTANCES AND PETROLEUM PRODUCTS.....	16-24
16.19 LEAD-BASED PAINT.....	16-25
<b>SECTION 5: PROCESSING AND CLOSING .....</b>	<b>16-27</b>
16.20 OVERVIEW.....	16-27
16.21 SPECIAL NOTICES AT SALE.....	16-27
A. HUD Insured Financing.....	16-27
B. Disclosure of Lead-Based Paint or Hazards .....	16-27
16.22 INSPECTION .....	16-28
16.23 PRORATING REAL ESTATE TAXES AND/OR ASSESSMENTS .....	16-28
16.24 DOWN PAYMENT.....	16-28
16.25 PAYMENT OF POINTS .....	16-29
16.26 CLOSING EXPENSES .....	16-29
16.27 COMMISSIONS .....	16-29
16.28 TRANSFERRING TITLE .....	16-29
16.29 REPORTING SALE.....	16-29
ATTACHMENT 16-A: SAMPLE SOLICITATION PACKAGE	
ATTACHMENT 16-B: SAMPLE ADVERTISEMENT FOR BROKERS	
ATTACHMENT 16-C: NOTIFICATION OF AVAILABLE TRIBAL PROPERTY	
ATTACHMENT 16-D: SAMPLE ADVERTISEMENT OF AVAILABLE REO PROPERTIES	
ATTACHMENT 16-E: COVENANT REGARDING HAZARDOUS SUBSTANCE REMEDIATION	
ATTACHMENT 16-F: NOTIFICATION: HAZARDOUS SUBSTANCE ACTIVITY	

## **GLOSSARY**

## **LIST OF ACRONYMS**

---

## APPENDICES

- Appendix 1 7 CFR Part 3550, Direct Single Family Loan and Grant Program
- Appendix 2 Forms and Certifications
- Appendix 3 Handbook Letters
- Appendix 4 7 CFR Part 11, National Appeals Division Rules of Procedure
- Appendix 5 Appraisal Guidelines
- Appendix 6 NP Interest Rates
- Appendix 7 State Supplements
- Appendix 8 Section 306C Water and Waste Disposal Grants to Individuals
- Appendix 9 HUD Income Limits
- Appendix 10 Section 203(b) Limits
- Appendix 11 Net Recovery Value
- Appendix 12 Lead-Based Paint Information
- Appendix 13 CSC Information

